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Understanding the Law of "Necessary but Insufficient"

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If your business isn't as successful as you'd like, it's time to take it apart piece by piece to see just where the problems are.

November 22, 2004

By Michael Gerber URL: <http://www.Entrepreneur.com/article/0,4621,318430,00.html>

Over the years, as I've worked with tens of thousands of small-business owners to answer the question "What works, what doesn't, and what's missing when it doesn't?", I discovered an often misunderstood law, which is violated everywhere I look. It's the law of "necessary but insufficient." Let's take a look at it together.

Start by taking your business apart, piece by piece. Can you identify what's necessary to the success of your business but, by itself, is insufficient to produce the results you want?

Increased revenue is one example. Increased revenue is always necessary (or, at least desirable), but obviously, by itself, it's insufficient without increased gross margins. And increased gross margins are always necessary (or, if not absolutely, positively necessary, at least preferable to decreased gross margins), yet without increased net profits, increased gross margins by themselves are insufficient to produce the results you want.

At the same time, increased revenue and increased gross margins and increased net profit can all still be insufficient if there's inadequate capitalization to support the growth. In short, without the necessary capitalization, you can grow like crazy—and grow yourself right out of business! So manageable cash flow is the fourth part of the holistic financial equation that's part of the law of necessary but insufficient.

And that's only the beginning of the reason why, when somebody promises you more sales than you can possibly ever imagine, for example, you've got a whole bunch of questions to ask. Such as: What will the operational costs be to create those sales? What will my gross margins be? What will my net be? What will the cash flow implications be? What's the business plan? What will happen to me if what you say will happen *doesn't*? What's the cost to me of not producing the results you're promising? The people cost? The marketing cost? The sales cost? The missed opportunity cost? And so on and so forth.

No matter where you look in your business, there are necessary but insufficient categories everywhere:

- Your business is clean, but visually unimpressive.
- Your interior has been freshly painted, but the colors are psychographically wrong for your central demographic customer.
- Your salespeople are courteous, but insufficiently knowledgeable about your sales process.
- Or your salespeople are sufficiently knowledgeable about your sales process, but there's no script, so they each describe your business and your products differently.

Necessary but insufficient.

So what can you do to correct the situation? Make a list of each and every result you want produced in your business—scrutinize every aspect of your entire company. Next, create an organizational chart detailing every function and every position within every function.

Then organize each of the positions by the results each is accountable for, starting at the bottom of your business and moving to the top, thinking: What is the position? What is the function? What are the results each is intended to produce? How is it supposed to look, feel and act in order to produce those results? At what cost? At what price? What will be the return on investment?

None of the positions or functions is sufficient by itself to produce the results you want, but

each of them, done in exactly the right way or put in exactly the right order, is necessary to produce the desired finished product: a highly successful business.

The law of necessary but insufficient is a great way to make all those decisions you need to make by asking yourself: Is it necessary? Is it sufficient? If it's not necessary, don't do it. If it's insufficient, what else is necessary to complete its sufficiency? It's a logic tree I think will be of great help to you. But don't just think about it. Do it! Thinking about it, while necessary, is insufficient to produce the impact I know it will produce once it becomes an operating part of your business.

Let me know what happens.

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